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**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Application of Pacific Gas and Electric
Company to Establish a Demonstration
Climate Protection Program and Tariff Option

Application No. 06-01-012

**PACIFIC GAS AND ELECTRIC COMPANY'S REPLY
COMMENTS ON ALTERNATE PROPOSED DECISION
ESTABLISHING A DEMONSTRATION CLIMATE
PROTECTION PROGRAM AND TARIFF OPTION**

GAIL L. SLOCUM
ANDREW L. NIVEN

Pacific Gas and Electric Company
77 Beale Street
San Francisco, CA 94105
Telephone: (415) 973-6583
Facsimile: (415) 973-0516
E-Mail: GLSg@pge.com

Attorneys for
PACIFIC GAS AND ELECTRIC COMPANY

Dated: December 11, 2006

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Application of Pacific Gas and Electric Company
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**PACIFIC GAS AND ELECTRIC COMPANY'S OPENING
COMMENTS ON ALTERNATE PROPOSED DECISION
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I. INTRODUCTION AND EXECUTIVE SUMMARY

Pursuant to Rule 14.3(d) of the California Public Utilities Commission's (CPUC) Rules of Practice and Procedure, Pacific Gas and Electric Company (PG&E) files these reply comments on the Alternate Proposed Decision (APD) issued by President Peevey on November 14, 2006 in the above-referenced proceeding. In this reply, PG&E responds to the December 4, 2006 comments of: The Utility Reform Network (TURN), the Division of Ratepayer Advocates (DRA), and Aglet Consumer Alliance (Aglet).

For the reasons herein and as presented in the proceeding, the Commission should reject ALJ Thomas's Proposed Decision (PD) and adopt the APD after modifying it per PG&E's opening comments. The CPUC should: (1) reject TURN's and DRA's arguments that the Climate Protection Tariff (CPT) administrative and marketing (A&M) costs should be funded by shareholders; (2) reject TURN's continued argument for an equal cents allocation methodology as it is inconsistent with the allocation of other similar costs; (3) reject TURN's comments that PG&E's budget is excessive as it has been specifically designed for a successful program and will be comparable to similar programs by the third year; and (4) agree with comments from TURN that marketing materials clearly state that they are paid for by PG&E customers in accordance with the APD's approved CPT terms.

**II. THE APD IS CORRECT NOT TO REQUIRE SHAREHOLDERS TO PAY
TO RUN THIS TARIFFED PUBLIC PURPOSE PROGRAM**

TURN and DRA argue that the CPUC should require PG&E's shareholders to pay 25-33%, as suggested by DRA (p.3), or all A&M costs, as suggested by TURN (pp.2-3). However, the record shows that requiring shareholder CPT funding is not appropriate for this tariffed, demonstration program.

In its comments, TURN claims that the CPT is not like other public purpose programs and therefore, shareholder funding should be required. PG&E disagrees. Although the CPT does not directly impact supply and the price of resource, neither does the California Alternative Rates for Energy (CARE) program or the Low Emission Vehicles program. Accordingly, impacting the supply and price of resources is not a prerequisite to qualify as a public purpose program, as TURN asserts. In addition, PG&E agrees with the APD which properly notes that all customers will benefit similarly from this program's widespread environmental, educational, and other benefits, as all parties agreed. (See TURN, Roschelle, TR.pp.267, lines 18-23; DRA, Greig, TR.pp.383-384; Aglet, Weil, TR.p.664, lines 5-9). Participating CPT customers are subsidizing the remainder of customers by paying 100 to 200 more times than non-participants do -- yet they receive virtually identical benefits. TURN also asserts that the CPT has not met a cost-effectiveness test and therefore, cannot be treated like a public purpose program. However, as PG&E has repeatedly stated, the CPT is a start-up program and not all public purpose programs were held to strict cost-effectiveness tests at their inception. TURN's comparison of the CPT to PG&E's charitable¹ efforts like PG&E's shareholder funded REACH and Solar Schools programs is unfounded. The CPT differs from these efforts in that the CPT will be a tariffed program that PG&E must offer in accordance with the CPUC's decision, just as other public purpose programs, whereas REACH and Solar Schools were not CPUC-ordered and could be discontinued at will by PG&E. Hence, TURN's criticisms of the APD, and its arguments for shareholder funding claiming the CPT is not a public purpose program, are clearly without merit.

In its comments, DRA argues that shareholders should fund 25-33% of program A&M costs due to unquantifiable "goodwill" it claims the program may yield. No party has provided precedents showing that either environmental leadership or any goodwill from the program provides a basis for the CPUC to require shareholder funding. It would go against Commission precedent to require shareholder funding of tariffed utility programs simply because they might provide ancillary benefits to an IOU's image. Put another way, to require shareholder funding of any utility program that garners positive regard for the

¹ TURN and DRA also argue that participating CPT customers should be allocated A&M costs. PG&E agrees with the APD's discussion (pp. 13-19), finding that participating customers should not be allocated the costs, and therefore does not restate that argument in these comments.

utility would lead to the perverse result that only bad utility programs that no one likes and that produce no public good should be ratepayer-funded. Thus, it is not surprising that there are no known tariffed utility programs, approved and overseen by the CPUC, for which PG&E's shareholders are required to pay operating costs. (See PG&E Opening Brief (OB) pp. 67-83.) Thus the APD, like the PD, is correct to conclude that shareholder CPT participation is "encouraged but not required." However, the APD should be modified as set forth in PG&E's November 20, 2006 Reply Comments to the PD. Specifically, the APD should be amended to delete the text at page 20 lines 4 - 12 and page 21 lines 1 - 2 (from "we do not find..." through "where PG&E makes the rules"), because once the CPUC adopts the CPT as a tariff, PG&E cannot unilaterally change this tariff's terms and conditions approved by the CPUC. Thus, PG&E will not "make the rules" here and will lack discretion to decline this tariff to any eligible customer. This contrasts to with the retention and attraction discounts cited in footnote 22 which, during restructuring, were partially shareholder funded, but only offered at PG&E's *discretion*. Therefore, and for the additional reasons set forth in PG&E's November 28 reply comments on the PD, PG&E recommends deletion of the material at pages 20 – 21 and footnote 22 which, as this text contain errors and are unnecessary to the APD's approach ("encourage but not require" shareholder funding).

III. TURN'S ARGUMENT FOR "EQUAL CENTS" A&M COST ALLOCATION SHOULD BE REJECTED

In its comments, TURN continues to argue that the APD should be revised to allocate costs on an equal cents per therm or kWh methodology, as opposed to the per customer distribution allocation methodology formulated in PG&E's General Rate Case. Per record evidence and the discussion in the APD (at pp. 29-30), and for the reasons already set forth in PG&E's November 28, 2006 reply comments (pp. 3-4; incorporated herein by reference), PG&E disagrees with TURN's assertions, and supports this portion of the PD and APD. In PG&E's reply comments on the PD, PG&E showed why residential customers will not bear an unfair share of CPT A&M costs, and why TURN's selective citation to the CARE and gas SGIP allocation as an equal cents precedent is misleading: TURN ignores the fact that all other public purpose programs are allocated on an equal percent of revenue -- including energy efficiency, California Solar Initiative, and Demand Response. Thus the APD and the PD were correct to reject

TURN's approach. PG&E has proposed to treat the program's administrative and general costs in the same manner as such other costs. As repeatedly stated on the record (Ex. 3, pp.2-15 to 2-17; OB, pp.52-54; RB p.36), cost allocations applied to PG&E's electric and gas distribution rates are thoroughly litigated in the relevant proceedings, to which TURN is a party. The CPUC should avoid piecemeal establishment here of a separate allocation and/or ratemaking for such a small revenue requirement increment.²

TURN incorrectly claims that if other programs were allocated on the basis of revenue, residential rates would increase. PG&E is not here proposing an allocation method for any other public purpose program, and the point is moot for electric rates, as other electric public purpose programs are already allocated by non-equal cents methods. The CPT results in only a 2 – 4 cents a month bill impact for the typical residential customer as noted in the APD, which correctly rejected this TURN argument.

IV. PG&E'S CPT A&M BUDGET IS JUSTIFIED FOR A START-UP PROGRAM

At page 8 of its comments, TURN argues that PG&E's A&M budget is excessive and not justified based on the record presented. Yet, TURN fails to present any factual evidence or even recommend a budget for the program. PG&E continues to disagree with TURN's claims, as shown by record evidence that PG&E's proposed administrative and marketing budget is "just right" and has been carefully and appropriately sized for the successful launch for a first-of-its-kind, start-up program. (Ex.1, p.3-14; OB, pp.10-11.) Furthermore, PG&E developed its marketing budget based on customer acquisition costs benchmarked against other successful utility green programs. Evidence clearly showed that, in comparison to data from the National Renewable Energy Laboratory (NREL), by Year 3, PG&E estimates that CPT A&M costs compared to total program revenues will be equal to, if not lower than, the average costs of more mature, analogous "green pricing" programs. (Ex. 3, p.1-3.) No party has disputed the fact that, once this start-up program's enrollment ramps up and reaches a steady state, its operational costs will decrease significantly -- yet its benefits will stay steady. (See, e.g., TURN, Roschelle, TR

² In Exhibit 3, page 2-16, PG&E noted that even if all A&M costs were assigned to all customers, annual program costs would amount only approximately to 0.15 percent of PG&E's total annual revenues.

p.258, lines 27-28 to p.259 lines 1-2.). Thus, PG&E's budget is justified to ensure this start-up program succeeds, per the APD; TURN's comments to the contrary should be rejected.

V. PG&E AGREES WITH TURN ABOUT STATEMENT ON CPT MARKETING AND EDUCATION MATERIALS

In its comments (p.4), TURN requests that PG&E be required to clearly state on all marketing and education materials that the CPT program is paid by PG&E customers. PG&E agrees and, if the APD is adopted, will include such language in its written CPT outreach materials. Consistent with other programs in which PG&E includes language about funding such as Energy Efficiency or the 10/20 Winter Gas Savings Program, PG&E plans to include the following statement, "This material is being funded by PG&E customers, in accordance with the California Public Utilities Commission."

VI. CONCLUSION

For the foregoing reasons, PG&E respectfully requests that the CPUC adopt the APD after modifying it as discussed herein, including making changes to the Findings of Fact and Conclusions of Law set forth in Appendix A of PG&E's Opening Comments on the APD, filed December 4, 2006.

Respectfully submitted,

GAIL L. SLOCUM
ANDREW L. NIVEN

/S/
By Gail L. Slocum

Pacific Gas and Electric Company
77 Beale Street
San Francisco, CA 94105
Telephone: (415) 973-6583
Facsimile: (415) 973-0516
E-Mail: GLSg@pge.com

Attorneys for
PACIFIC GAS AND ELECTRIC COMPANY

Dated: December 11, 2006

CERTIFICATE OF SERVICE BY ELECTRONIC MAIL OR U.S. MAIL

I, the undersigned, state that I am a citizen of the United States and am employed in the City and County of San Francisco; that I am over the age of eighteen (18) years and not a party to the within cause; and that my business address is Pacific Gas and Electric Company, Law Department B30A, 77 Beale Street, San Francisco, CA 94105.

I am readily familiar with the business practice of Pacific Gas and Electric Company for collection and processing of correspondence for mailing with the United States Postal Service. In the ordinary course of business, correspondence is deposited with the United States Postal Service the same day it is submitted for mailing.

On the 11th day of December, 2006, I served a true copy of:

**PACIFIC GAS AND ELECTRIC COMPANY'S REPLY COMMENTS ON
ALTERNATE PROPOSED DECISION ESTABLISHING A DEMONSTRATION
CLIMATE PROTECTION PROGRAM AND TARIFF OPTION**

[X] By Electronic Mail – serving the enclosed via e-mail transmission to each of the parties listed on the official service list for A-06-01-012 et al. with an e-mail address.

[X] By U.S. Mail – by placing the enclosed for collection and mailing, in the course of ordinary business practice, with other correspondence of Pacific Gas and Electric Company, enclosed in a sealed envelope, with postage fully prepaid, addressed to all parties on the official service list for A-06-01-012, et al. without an e-mail address.

I certify and declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed on this 11th day of December, 2006, at San Francisco, California.

/S/

ALENE DEYEIN